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Approved For Release 2000/08/23 : CIA-RDP63-00084A000400120003-0

1230 pm 9 June 55

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CFEP DRAFTING GROUP
ECONOMIC DEFENSE POLICY REVIEW

Staff Study No. 12
Draft of June 1, 1955

Economic Penetration of Underdeveloped Areas
by the Communist Bloc

Attached are revised and new pages to be substituted for certain old pages of Staff Study No. 12, on "Economic Penetration of Underdeveloped Areas by the Communist Bloc":

Revised Page 1
New Page 1a (continuation of Revised Page 1)
Revised Page 3 which refers to Footnote 1/ at the top and bottom of the page.
New Page 3a, which constitutes Footnote 1/.
Revised Pages 6 and 7
New Page 7a (continuation of Revised Page 7)

Irving I. Kramer
Executive Secretary

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ECONOMIC DEFENSE POLICY REVIEW

Staff Study No. 12
June 1, 1955
(Contributed by State
Through EDAC
Working Group V)

Economic Penetration of Underdeveloped Areas
by the Communist Bloc

Problem

What should the U.S. attitude be with respect to the acceptance by underdeveloped countries of Soviet bloc offers of trade and economic development assistance?

General Considerations

1. The same basic problem of Soviet bloc economic infiltration exists with respect to all underdeveloped areas of the free world and differs only in emphasis and degree.

2. For the purposes of this paper the problem of trade, as such, between the Communist bloc and the non-Communist underdeveloped areas may be treated rather summarily. The general approach of the U.S. Government, as laid down in the Battle Act and in the pertinent NSC directives, has been to seek the cooperation of the underdeveloped areas of the free world, as well as of the industrially advanced countries, in a system of selective controls over the export of strategic items to the Soviet bloc. For a variety of reasons, some political, some psychological, and some economic, the U.S. has not sought a total embargo on East-West trade. Accordingly, the U.S. does not object to nonstrategic trade between the underdeveloped areas and the European Soviet bloc so long as such trade does not become a means by which the system of strategic trade controls can be undermined or by which the bloc can otherwise extract

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undue economic and political concessions. As to Communist China and North Korea, the policy of the U.S. has been to endeavor to persuade other free world countries, including the underdeveloped countries, to maintain very stringent export controls in support of the U.N. Resolution of May 18, 1951, and as agreed among the participating countries in the CG/CHINCOM.

3. The principal

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economic assistance to make political gains. It may make capital goods available for export, either on a grant or credit basis or in exchange for foodstuffs or raw materials. 1/

6. The economic growth process has barely begun in south and southeast Asia. There is a tremendous upsurge of aspirations and pressures for fundamental changes in the pattern of life which cannot be accommodated within the foreseeable future unless more rapid economic development takes place. However, there is a gap between the indigenous financial resources and technical skills available and those needed for rapid development. Consequently, free governments in the Asian area look to external assistance to aid them in their task of improving their economies.

7. In Latin America there has been very rapid economic growth since World War II, but living standards are still low. The possibilities for Soviet bloc activity of the kind under consideration here are not provided so much by pressure for even more rapid growth, although that is a factor, but by Latin America's desire to find markets for its exportable commodities, by rather widespread inflation in Latin America, by other imbalances resulting from present rates of economic development, and by social changes.

8. The non-Communist underdeveloped countries are being assisted in the implementation of their development programs by free western nations which extend assistance through various programs, both bilateral and multilateral. The U.S. is the largest contributor of such external economic assistance. Its programs are predicated on the belief that economic advancement through democratic processes is necessary for the maintenance and improvement of the political, economic and social stability essential to world peace.

9. The U.S.

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1/ According to an article which appeared in the April 1955 issue of the USSR publication on Foreign Trade, "Vneshnyaya Torgovlya," and which is believed to be substantially correct, a Combine for Export of Technology and Industrial Products, "Technopromeksport," has recently been established in the USSR.

This All-Union Combine provides an apparatus capable of exporting capital equipment and furnishing technical aid to underdeveloped areas. According to its charter, the Combine will have the following functions:

1. Research work for designing projects and installations, for geological prospecting, aerial photographs and exploration.
2. Project design for enterprises and installations to be built.
3. Control and check through surveillance to assure that construction and assembly work follow the design and engineering documents.
4. Supervision of assembly of equipment and putting industrial and other enterprises into operation.
5. Training of foreign nationals, both in the USSR and abroad, for work in industrial and other enterprises abroad.

In order to carry out these functions, Technopromeksport is empowered (a) to conclude all kinds of agreements and carry out other activities, including credit and exchange operations with institutions, enterprises, and individuals in the USSR and abroad, (b) to establish subsidiary enterprises, and (c) to acquire necessary property in the USSR and abroad. Technopromeksport may also establish offices, agencies and representatives abroad and participate in all kinds of organizations and associations.

The charter of the new corporation gives it planning and supervisory functions formerly held by Technoeksport, although Technopromeksport is probably now more truly a technical aid organization than is Technoeksport.

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of the USSR, or alternatively, under the direction of the underdeveloped countries themselves, which could dictate the nature and terms of U.S. assistance by rumor-ing that "Moscow has offered to do this for us."

13. It seems essential, also, for the U.S. to maintain a flexible position, giving us the maximum possible freedom of action to anticipate Soviet economic moves and take appropriate preventive or corrective action. This would indicate an approach dictated by the special and differing circumstances in each country which the Soviet bloc seeks to penetrate. Also indicated is a continuing review of economic development possibilities in the light of these special and differing circumstances. Quite obviously, certain cases of attempted Soviet penetration will be of greater concern to the U.S. than others. Some cases might prove to be sheer bluff, particularly if grandiose in character, and, if allowed to reach abortive conclusions without official U.S. intervention or even cognizance, might net the Soviets propaganda defeats. In other instances, the Soviets might have every intention to fulfill their promises; in such cases the U.S. might or might not wish to make some attempt designed to offset the undesirable effects of the Soviet action, depending, again, upon the general situation and the prevailing special circumstances. It is conceivable that, in certain instances, Soviet bloc economic assistance to underdeveloped countries might be evaluated by the U.S. Government as a net contribution to the economic growth and political stability of the recipient countries, and, therefore, as an indirect unintentional contribution to U.S. foreign policy objectives. If, in any case, the outcome of Soviet bloc assistance should prove to be constructive from the U.S. point of view, this result could be considered to be in some measure at odds with

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Soviet objectives in general; since it is axiomatic that economic deterioration and political instability are favorable to the extension of Communist influence.

14. In connection with the ad hoc approach to preventing or countering the undesirable effects of Soviet bloc economic penetration, consideration has been given to the possible usefulness and desirability of developing (a) criteria defining those situations in which the U.S. might wish to move in with special measures to thwart or counter Soviet actions, and (b) an arsenal of appropriate or illustrative special measures which might be employed in circumstances meeting such criteria. It was concluded, however, that this would be an impracticable exercise. At best, it would be academic; at worst, it might tend to introduce rigidities in thinking within the U.S. Government which could impair the flexibility required to meet future situations or unforeseen circumstances. Moreover, little would seem to be gained by a detailed examination of what the U.S. might have done at various stages in relation to even the known instances of Soviet bloc penetration. While it appears unwise to attempt to stake out in advance specific situations or circumstances in which the U.S. would employ special measures, it does seem necessary to establish at this stage a framework of broad principles within which the examination of specific situations can be made with the purpose of determining whether and what U.S. action might be appropriate and feasible.

15. In accordance with the foregoing line of thinking, and by way of summarizing the discussion to this point, it appears that the wisest general course of action for the U.S. to follow is to consider attempted Soviet economic penetration in the context of the broad programs of U.S. foreign economic policy, including our various technical and developmental assistance programs.

16. Consideration

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16. Consideration has been given also to the matter of the adequacy or inadequacy of existing U.S. Governmental machinery for examining specific Soviet bloc efforts at economic penetration as they arise and determining whether counter-measures seem appropriate. It is felt that, in general, the economic defense organization is adequate for dealing with the aspects of these problems with which it is concerned.

17. A final matter which may merit some consideration has to do with psychological warfare methods of countering Soviet bloc economic penetration efforts.

There is

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